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February 15, 2006

**VIA HAND DELIVERY**

David Ronald, Esq.  
Legal Division  
Arizona Corporation Commission  
1200 W. Washington St.  
Phoenix, Arizona 85007

**Re: Gold Canyon Sewer Company, Docket No. SW-025191A-06-0015**

Dear David:

Gold Canyon hereby supplements its February 14, 2006 response to Staff's Letter of Deficiency dated February 10, 2006 in the above-referenced Rate Filing. Since the docketing of that response, Gordon Fox contacted Mr. Bourassa and it appears we need to provide further clarification concerning three of Staff's six deficiency items. Those items are identified and discussed in greater detail below.

Item No. 1 – Bill Count and Other H Schedules: Mr. Fox directed Mr. Bourassa to docket the Company's response to this item. Since the Company's response, which has been docketed, is that the information Staff sought was contained in the original filing, there is nothing else to docket.

Item No. 3 – Common Equity D-1 and E-1 Schedules: In the initial response, we expressed Gold Canyon's view that this item was resolved during Mr. Bourassa's discussion with Ms. Brown on Monday, February 13, 2006. However, we are now informed that this was not the case. Instead, we now understand that Staff views the application as insufficient because Mr. Bourassa has proposed certain adjustments to equity in the D-1 Schedules without making additional adjustments to deferred taxes. Mr. Bourassa does not believe the Company should propose an adjustment to deferred taxes and therefore did not propose one in his direct schedules. Certainly Staff is free to propose such an adjustment in its direct filing or to recommend that Mr. Bourassa's proposed adjustments to equity be rejected. That does not mean, however, that Staff can force the Company to file new schedules reflecting an adjustment the Company does not support. For one thing, the changes Staff demands the Company make will result in a substantial amount of additional work, including changes to Mr. Bourassa's direct testimony and the B

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schedules, resulting in substantial additional rate case expense. Moreover, the adjustment to deferred taxes Staff wants made may impact the revenue requirement, essentially changing the relief the Company has requested.

By way of analogy, assume that Gold Canyon had proposed an adjustment to test year depreciation expense based on annualizing depreciation expense for plant at the end of the test year, plus post test year plant. Further, assume that Staff determined during the sufficiency process that in its view an additional adjustment to accumulated depreciation was necessary to allow for an additional year of depreciation on post test year plant.. Under Staff's approach to sufficiency review, Staff can require the Company to refile its B, C and D schedules to account for the additional adjustments Staff believes are necessary as a result of the Company's proposal, even if the Company opposed such an adjustment. We disagree, and respectfully assert that such a requirement, like the adjustment Staff demands the Company make to deferred income taxes, goes well beyond the "technical review" Staff is supposed to be conducting as part of the sufficiency process. See Decision No. 57875 (May 18, 1992) at Attachment A, p. 2-3 and Attachment B, p. 11-12. In short, the sufficiency period is not the time to litigate issues in dispute.

Item No. 5 – Year End Customers and Annual Revenue, Schedule E-7: Mr. Fox also directed Mr. Bourassa to docket the response to Item No. 5, however, that response and the corrected schedule were docketed along with the initial response on February 14, 2006.

Please feel free to contact me if you have any questions.

Very truly yours,

  
FOR  
Jay L. Shapiro

cc: Arizona Corporation Commission Docket Control  
Hon. Dwight Nodes, Assistant Chief Administrative Law Judge  
James Dorf, Arizona Corporation Commission, Utilities Division  
Gold Canyon Sewer Company